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Money tangle

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The Money Tangle

"PLAYING the market," using the term loosely, seems to have become the favorite indoor sport. On trains, in waiting-rooms, hotel lobbies, drawing-rooms, between the acts, and in various and sundry other places one hears the chatter about "stocks." Runners for brokerage houses recount their gains and losses. Manicurists are on the lookout for tips. Society matrons wonder if "Hash, common" is a good buy for a rise. In short, the whole country, more or less, is obsessed with the idea of making money in the market.

Securities, in relation to the market, are commodities, like iron and steel. An exchange affords a place where sellers and buyers may meet and have their dealings. The price of securities is determined by effective supply and demand. When demand exceeds supply, prices rise. When supply overrides demand, prices fall. Demand is controlled by the purchasing power of buyers. When money is easily obtainable, demand increases and prices rise. When the supply of money declines, interest rates increase, demand for securities falls off; and unless the supply keeps pace, the prices of securities drop. Thus, the economist explains market prices.

Adam Smith, when he enunciated his principles of economics probably never dreamed of a stock market situation such as exists in this country today. He was not aware of the effect which might be brought about by hundreds of huge investing companies, taking out of and putting into the market, millions of dollars worth of securities. He could not foresee a market-crazed nation, nor a condition of industrial prosperity which would enable corporations to loan on call a volume of surplus funds sufficient to jeopardize the position of the Federal Reserve Board in its control of money matters.

But the chances are that the simple principles which comprise our economic theory will govern in the present somewhat disturbed situation. History will repeat itself, perhaps through slightly different manifestations. When industry needs the surplus funds it has loaned to those who wish to speculate in securities, industry will recall those funds. If funds are not forthcoming from other sources, money rates will rise. When it is no longer profitable to borrow money for speculation, there will be a decline in speculation.

The wisdom required to apprehend all angles and ramifications of the present money tangle is vouchsafed to few. The best one can do is to fall back on principles which have governed such matters since the dawn of civilization. Left to natural laws, probably the situation will right itself.